



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Naledi Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Naledi Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as the municipality did not have an adequate system of internal control to account for these property, plant and equipment and did not keep proper records. I was unable to confirm these property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of R1 207 679 905 (2017: R1 222 683 185) as disclosed in note 4 or repairs and maintenance of R2 055 560 as disclosed in the statement of financial performance and to depreciation and amortisation expense of R43 447 451 (2017: R35 892 345) as disclosed in note 31 to the financial statements were necessary.

Inventories

4. During 2017, I was unable to obtain sufficient appropriate audit evidence for inventory and to confirm the inventory by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to inventories stated at R2 899 951. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the inventories for the current period.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions as the municipality did not have an adequate system of internal control to account for these receivables and did not keep proper records. I was unable to confirm these



receivables by alternative means. In addition, the municipality did not record revenue from traffic fines in accordance with iGRAP 1, *Applying the probability test on Initial recognition of revenue* by not recording all outstanding fines. I was unable to determine the full extent of the misstatement on receivables from non-exchange transactions or fines revenue as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments relating to receivables from non-exchange transactions of R14 508 079 (2017: R10 393 205) as disclosed in note 8 to the financial statements or revenue from traffic fines of R4 311 914 (2017: R1 811 750) as presented in the statement of financial performance were necessary.

VAT receivable

6. I was unable to obtain sufficient appropriate audit evidence for VAT receivable as the municipality did not have an adequate system of internal control to account for the VAT receivable and did not keep proper records. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any further adjustment relating to the VAT receivable of R17 613 925 (2017: R32 670 327) as disclosed in note 9 to the financial statements was necessary.

Consumer debtors

7. I was unable to obtain sufficient appropriate audit evidence for consumer debtors as the municipality did not have an adequate system of internal control to account for these consumer debtors and did not keep proper records. I was unable to confirm these consumer debtors by alternative means. In addition, the municipality incorrectly included receivables relating to property rates in consumer debtors, resulting in consumer debtors being overstated and receivables from non-exchange transactions being understated by R18 045 314 (2017: R5 870 701). Consequently, I was unable to determine whether any further adjustments relating to consumer debtors of R74 550 113 (2017: R18 592 982) as disclosed in note 10 or the related impairment expense of R15 488 214 (2017: R33 595 819) as disclosed in note 32 and the financial instrument disclosures in note 39 to the financial statements were necessary.

Other financial liabilities

8. The municipality did not have adequate systems to maintain records of other financial liabilities due to classification misstatements. This resulted in other financial liabilities being overstated by R6 546 101 and payables from exchange transactions understated by the same amount. In addition, the municipality incorrectly calculated the short term portion of other financial liabilities due in the next financial year as current assets in accordance with GRAP 1, *Presentation of financial statements*. Consequently, current other financial liabilities were overstated by R8 103 936, and the non-current current portion of other financial liabilities was understated by R1 557 835.

Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions as the municipality did not have an adequate system of internal control to account for these payables and did not keep proper records. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustments relating to payables from exchange transactions of R513 534 015 (2017: R437 892 809) as disclosed in note 18 and the financial instrument disclosures in note 39 to the financial statements was necessary

Provisions

10. The municipality has environmental rehabilitation, continued medical aid and long-service provisions that are subject to assumptions, judgements and estimates. The municipality did not have adequate systems and processes to accurately account for these provisions in accordance with the actuarial valuations performed. This resulted in provisions being

overstated by R6 396 901. Furthermore, contrary to the requirements of GRAP 25, *Employee benefits*, and GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*, management did not include the required disclosures and current year movements in these provisions in note 17 to the financial statements. I have not included the omitted information in this auditor's report as it was impracticable to do so.

Accumulated surplus

11. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus due to differences between the financial statements and the accounting records. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to the accumulated surplus of R700 920 867 (2017: R732 564 481) as presented in the statement of financial position and the statement of changes in net assets.

Service charges

12. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges relating to electricity and water as the municipality did not have an adequate system of internal control to account for these services charges and did not keep proper records. I was unable to confirm this revenue by alternative means. In addition, the municipality did not correctly levy consumers as incorrect tariffs were used for sewerage and sanitation charges and the municipality did not bill all properties for service charges. I was unable to determine the full extent of the misstatement on service charges as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment relating to service charges of R148 416 969 (2017: R148 583 189) as disclosed in note 21 to the financial statements was necessary.

Property rates

13. I was unable to obtain sufficient appropriate audit evidence for property rates as the municipality did not have an adequate system of internal control to account for these property rates and did not keep proper records. I was unable to confirm these transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to property rates of R46 057 550 disclosed in note 26 to the financial statements were necessary.
14. During 2017, the municipality did not correctly recognise revenue relating to property rates in accordance with GRAP 23, *Revenue from Non-exchange Transactions* due to various transactions being duplicated in the accounting records. Consequently, the corresponding figure for revenue from property rates was overstated by R33 432 231. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. As this misstatement was not correct, my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Licences and permits

15. I was unable to obtain sufficient appropriate audit evidence for licences and permits as the municipality did not have an adequate system of internal control to account for this revenue and did not keep proper records. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to licences and permits of R5 221 107 as presented in the statement of financial performance was necessary.

Other income

16. I was unable to obtain sufficient appropriate audit evidence for other income as the municipality did not have an adequate system of internal control to account for this other income and did not keep proper records. I was unable to confirm this other income by alternative means. Consequently, I was unable to determine whether any further adjustments relating to other income of R4 456 415 (2017: R30 881 795) disclosed in the statement of financial performance was necessary.



Interest received

17. I was unable to obtain sufficient appropriate audit evidence for interest received as the municipality did not have an adequate system of internal control to account for this interest and did not keep proper records. I was unable to confirm the interest by alternative means. Consequently, I was unable to determine whether any further adjustments relating to interest received of R23 861 165 as disclosed in note 25 to the financial statements was necessary.

Employee cost

18. The municipality did not calculate overtime, bonuses, housing, pension and travel allowances paid to employees correctly. In addition the leave pay provision was incorrectly calculated. This resulted in employee cost being overstated by R4 232 625 and receivables from exchange transactions understated by the same amount.

Government grants and subsidies

19. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies as the municipality did not have an adequate system of internal control to account for these government grants and subsidies and did not keep proper records. I was unable to confirm this revenue by alternative means. In addition, the municipality did not correctly account for the equitable share resulting in government grants and subsidies being understated by R6 372 000. Consequently, I was unable to determine whether any further adjustments relating to government grants and subsidies of R103 005 574 as disclosed in note 28 to the financial statements were necessary.

Contracted services

20. I was unable to obtain sufficient appropriate audit evidence for contracted services as the municipality did not have an adequate system of internal control to account for contracted services and did not keep proper records. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any adjustment relating to contracted services of R11 184 185 as disclosed in note 35 to the financial statements was necessary.

Finance cost

21. I was unable to obtain sufficient appropriate audit evidence for finance cost as the municipality did not have an adequate system of internal control to account for the finance cost and did not keep proper records. I was unable to confirm the finance cost by alternative means. Consequently, I was unable to determine whether any further adjustments relating to finance cost of R32 225 902 as disclosed in note 33 to the financial statements was necessary.

Bulk purchases

22. I was unable to obtain sufficient appropriate audit evidence for bulk purchase as the municipality did not have an adequate system of internal control to account for bulk purchases and did not keep proper records. I was unable to confirm these bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment relating to bulk purchases of R78 311 879 as disclosed in note 34 to the financial statements was necessary.

General expenses

23. I was unable to obtain sufficient appropriate audit evidence for general expenses as the municipality did not have an adequate system of internal control to account for general expenses and did not keep proper records. I was unable to confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustment to general expenses of R17 966 478 disclosed in note 36 to the financial statements was necessary.



Contingencies

24. The municipality did not take all legal engagements into account for the disclosure of contingent assets and liabilities, as required by GRAP 19, *Provisions, contingent liabilities and contingent assets*. Consequently, contingencies liabilities as disclosed in note 41 to the financial statements was understated by R6 741 010. Furthermore contingent assets identified of R8 004 939 were not disclosed in note 41 to the financial statements.

Related parties

25. The municipality did not disclose all relevant related party relationships and balances as required by GRAP 20, *Related parties*. I was unable to obtain sufficient appropriate audit evidence for movements in loans to related parties as the municipality did not have an adequate system of internal control to account for related party balances and relationships and did not keep proper records. As the municipality did not quantify the full extent of the related party disclosures, it was impracticable to determine the total related party balances and relationships that should have been disclosed. No related parties or balances were disclosed in note 42 to the financial statements.

Prior period error

26. The municipality did not correctly disclose prior period errors in note 43 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors* as the nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest prior period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the disclosure of prior period errors in note 43 to the financial statements.

Unauthorised expenditure

27. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) requires the disclosure of unauthorised expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure as the municipality did not have an adequate system of internal control to account for unauthorised expenditure and did not keep proper records. I was unable to confirm these unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R150 344 699 as disclosed in note 46 to the financial statements was necessary.

Fruitless and wasteful expenditure

28. I was unable to obtain sufficient appropriate audit evidence that all fruitless and wasteful expenditure was disclosed as the municipality did not have an adequate system of internal control to account for fruitless and wasteful expenditure and did not keep proper records. I was unable to confirm these fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure of R126 676 809 disclosed in note 47 to the financial statements was necessary.

Irregular expenditure

29. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to non-submission of information in support of this disclosure. I was unable to confirm the irregular expenditure by alternative means. In addition, the municipality made payments of R15 170 768 (2017: R26 516 839) in contravention with the supply chain management requirements which were not included in the irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the total irregular

expenditure that should have been disclosed. Consequently, I was unable to determine whether any further adjustment relating to the irregular expenditure of R226 823 039 (2017: R177 698 837) as disclosed in note 48 to the financial statements was necessary.

Commitments

30. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not provide supporting documentation for the expenditure incurred relating to these commitments. I was unable to confirm these commitments by alternative means. Consequently, I was unable to determine whether any further adjustment relating to commitments of R68 137 334 (2017: R130 863 085) as disclosed in note 40 to the financial statements was necessary.

Distribution losses

31. I was unable to obtain sufficient appropriate audit evidence for distribution losses due the non-submission of information in support of this disclosure. I was unable to confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustments to water distribution losses of R7 985 623 or electricity distribution losses of R18 104 000 as disclosed in note 50 to the financial statements were necessary.

Cash flow statement

32. I was unable to obtain sufficient appropriate audit evidence for the calculation of the net cash flows from operating activities, investing activities and financing activities in the cash flow statement, as the municipality did not appropriately account for cash and non-cash items as required by GRAP 2, *Cash flow statements*. I was unable to confirm these items by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the net cash flows from operating activities, investing activities and financing activities in the cash flow statement and the note thereto.

Statement of comparison of budget and actual amounts

33. Contrary to the requirements of GRAP 24, *Presentation of Budget Information in Financial Statements*, the municipality did not disclose reasons for variances between budget and actual expenditure. In addition, not all expenditure and revenue amounts disclosed in the statement of financial performance and budget amounts included in the approved budget are included in the statement of comparison of budget and actual amounts. I have not included the impact of the omitted information in this auditor's report as it was impracticable to do so.

Other matter

34. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

35. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

36. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

37. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

38. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
39. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

40. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
41. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
42. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following key performance area presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key performance areas	Pages in the annual performance report
KPA 4: Basic services delivery and infrastructure investment	x – x

43. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
44. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

KPA 4 – Basic services delivery and infrastructure investment

Various indicators

45. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator	Reported achievement	Audited value
The number of households with access to basic level of water by 30 June 2018	8 766	9 090
The number of households with access to basic level of sanitation by 30 June 2018	8 766	10 065

Various indicators

46. The municipality did not have an adequate record keeping system to enable reliable reporting on the achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

Indicator	Reported achievement	Audited value
The number of households with access to basic level of electricity by 30 June 2018	4 320	5 600
The number of households with access to basic level of solid waste removal by 30 June 2018	12 284	13 649

Number of formalised households earning less than R2 300 per month with access to free basic services on a monthly basis

47. I was unable to obtain sufficient appropriate audit evidence for households earning less than R2 300 per month. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 4 972 as reported in the annual performance report.

Other matter

48. I draw attention to the matter below.

Achievement of planned targets

49. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

Introduction and scope

50. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
51. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

52. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.

Strategic planning and performance management

53. A performance management system was only adopted by Council on 28 March 2018 and was therefore not adopted timeously with the 2017/22 integrated development plan (IDP) as required by section 38(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 8 of the Municipal Planning and Performance Management Regulations.

Revenue management

54. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
55. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Expenditure management

56. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
57. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the payment of funds, as required by section 65(2)(a) of the MFMA.
58. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
59. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance due to staff not adhering to SCM regulations. Similar non-compliance was also reported in the prior year.
60. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R29 716 991, as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties paid on overdue accounts. Similar non-compliance was also reported in the prior year.
61. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified

as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by spending that was not budgeted for and funds not used for intended purpose. Similar non-compliance was also reported in the prior year.

Asset management

- 62. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 63. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
- 64. Sufficient appropriate audit evidence could not be obtained to determine whether capital assets permanently disposed of were needed to provide the minimum level of basic municipal service and whether these capital assets were disposed of without the municipal council having had a meeting open to the public, and whether the council considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(1), 14(2)(a) and 14(2)(b) of the MFMA.

Liability management

- 65. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
- 66. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Conditional grants

- 67. Performance in respect of programmes funded by the Municipal Infrastructure Grant as well as the EEDSM grant was not evaluated, as required by section 12(5) of the DoRA.

Procurement and contract management

- 68. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
- 69. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
- 70. Some of the quotations and contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
- 71. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the NLM2017-013B-Construction of Roads in Broedersput and NLM2017-014B-Construction of Community Hall in Broedersput construction projects.
- 72. Some of the competitive bids were not always evaluated by bid evaluation committees which were composed of at least one SCM practitioner of the municipality, as required by SCM regulation 28(2). Similar non-compliance was also reported in the prior year.
- 73. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the NLM2017-013B-Construction of Roads in Broedersput, NLM2017-014B-Construction of Community Hall in Broedersput and NLM2017-012B -Construction of Cemetery in Broedersput construction projects.

74. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). This non-compliance was identified in the procurement processes for the NLM2017-014B-Construction of Community Hall in Broedersput construction project.
75. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the NLM2017-013B-Construction of Roads in Broedersput, NLM2017-014B-Construction of Community Hall in Broedersput, NLM2017-012B -Construction of Cemetery in Broedersput, NLM2017-003B - Paving Of Extensin 25 Taxi Route Phase I and NLM2016-003B-Construction Of Rekgarathile Community Hall - Stella construction projects.
76. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

Consequence management

77. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

78. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
79. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
80. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
81. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

82. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in disclaimer of opinion, the findings on

the annual performance report and the findings on compliance with legislation included in this report.

- The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. Policies and procedures did not adequately guide financial, performance and compliance activities and consequence management measures were not fully implemented
- Management's internal controls and processes over the preparation and presentation of financial statements, performance reports and compliance monitoring were not able to ensure that the reports were free from material misstatements and material deviations from legislation. Numerous financial registers and schedules submitted by management did not agree to amounts as per the annual financial statement, was not complete for all items recorded and management did not adequately ensure the collection, collation, verification, storing and reporting of actual performance information.
- The audit committee and internal audit fulfilled their functions, however, management did not adequately respond to the concerns raised by the audit committee, and did not implement all the recommendations made by internal audit resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective. These matters together with the ineffective implementation and monitoring of the audit action plans resulted in the audit committee and internal audit not having a positive impact on the audit outcome.

Auditor-General

Rustenburg

30 November 2018



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Auditing to build public confidence